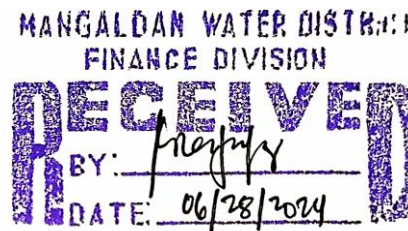




REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
**REGIONAL OFFICE NO. I**  
City of San Fernando, La Union



March 27, 2024

**Mr. TITO B. SARZABA**

Chairman of the Board of Directors  
Mangaldan Water District  
Mangaldan, Pangasinan

**Engr. MARCELO M. PETONIO**

General Manager  
Mangaldan Water District  
Mangaldan, Pangasinan

**Dear Chairman Sarzaba and Manager Petonio:**

We are pleased to transmit the Annual Audit Report of Mangaldan Water District for the Calendar Year 2023, pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 (2) of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The audit was conducted to: (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Mangaldan Water District in view of the significance of the exceptions noted in audit as stated in the Independent Auditor's Report.

The audit observations together with the recommended courses of action, which were discussed with the concerned management officials and staff during the exit conference on March 12, 2024, are presented in detail in Part II of the report.

We request that the recommendations contained in the report be immediately implemented and we appreciate being informed of the action taken thereon within 60 days from receipt hereof pursuant to Section 99 of the General Provisions of the General Appropriations Act of Fiscal Year 2023 (Republic Act No. 11936), using the Agency Action Plan and Status of Implementation (AAPSI) Form to be submitted to the Audit Team.

We acknowledge the support and cooperation that you and your staff extended to the Audit Team, thus, facilitating the submission of this report.

Very truly yours,

A handwritten signature in black ink, appearing to read 'K. Almonidovar', with a stylized flourish at the end.

**KARLO P. ALMONIDOVAR**  
Officer-In-Charge

*Copy furnished:*

*President of the Republic of the Philippines*  
*Vice-President of the Republic of the Philippines*  
*President of the Senate*  
*Speaker of the House of Representatives*  
*Chairperson – Senate Finance Committee*  
*Chairperson – Appropriations Committee*  
*Secretary of the Department of Budget and Management*  
*Governance Commission of the Government-Owned and Controlled Corporations*  
*Presidential Management Staff, Office of the President*  
*National Library (soft copy)*  
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*COA Commission Central Library (soft copy)*

**MANGALDAN WATER DISTRICT**

Mangaldan, Pangasinan

**AGENCY ACTION PLAN and  
STATUS of IMPLEMENTATION  
Audit Observations and Recommendations**

For the Calendar Year 2023

As of \_\_\_\_\_

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/ Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/ Dept. Responsible	Target Implementation Date				
					From	To			

Agency Sign-off

\_\_\_\_\_  
Name and Position of Agency Officer

\_\_\_\_\_  
Date

Note: Status of Implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed.



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
**REGIONAL OFFICE NO. I**

CORPORATE GOVERNMENT AUDIT SECTOR  
WATER DISTRICTS AND OTHER STAND ALONE AGENCIES  
City of San Fernando, La Union

**Office of the Auditor – Audit Team No. 5**

**MEMORANDUM**

**FOR : KARLO P. ALMONIDOVAR**  
Officer-in-Charge  
Commission on Audit  
Regional Office No. I

**THRU : ATTY. ROBERT V. OCAMPO, SR.**  
Supervising Auditor

**DATE : March 19, 2024**

In compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 (2) of Presidential Decree (PD) No. 1445, we conducted a financial and compliance audit on the accounts and operations of Mangaldan Water District (MAWAD), Mangaldan, Pangasinan for the year ended December 31, 2023.

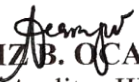
The audit was conducted to ascertain the fairness of presentation of the financial statements and the propriety of financial transactions. We conducted the audit in accordance with generally accepted auditing standards and we believe that it provides a reasonable basis for the results of the audit. The audit was likewise aimed at determining whether the desired objectives were attained in an effective, efficient, and economical manner.

Our report consists of three parts. Part I is the Audited Financial Statements, Part II contains the Observations with the corresponding Recommendations, and Part III presents the Status of Implementation by the Auditee of Prior Years' Audit Recommendations.

We rendered a Qualified Opinion on the fair presentation of the financial statements.

We have discussed our observations and their corresponding recommendations with the agency officials and personnel concerned during the exit conference last March 12, 2024. We are pleased to note their favorable reactions to our recommendations.

We acknowledge the cooperation extended to us by the Mangaldan Water District personnel, particularly those of the Finance Division, through whose assistance and support, the submission of this report was made possible.

  
**AIRIZ B. OCAMPO**  
State Auditor III  
OIC- Audit Team Leader



**Republic of the Philippines  
COMMISSION ON AUDIT  
Commonwealth Avenue, Quezon City**

# **ANNUAL AUDIT REPORT**

**on the**

**MANGALDAN WATER DISTRICT  
Mangaldan, Pangasinan**

**For The Year Ended December 31, 2023**

## EXECUTIVE SUMMARY

### A. INTRODUCTION

Mangaldan Water District (MAWAD) was first operated under the administration of the Municipality of Mangaldan under the name “Mangaldan Waterworks Authority”. It was formed through Resolution No. 38, series of 1979, passed by the Sangguniang Bayan of Mangaldan, Pangasinan on May 12, 1979, pursuant to the provisions of Presidential Decree (PD) No. 198, as amended by PD No. 768 and Republic Act (RA) No. 9286 also known as the “PROVINCIAL WATER UTILITIES ACT OF 1973”.

On October 6, 1980, the Conditional Certificate of Conformance (CCC) No. 139 was issued by the Local Water Utilities Administration (LWUA) to MAWAD entitling it to have access to LWUA technical, financial and institutional assistance to improve and develop the water supply system in the area. MAWAD, a Government Owned and/ or Controlled Corporation (GOCC), was re-categorized as Category B on February 23, 2015.

The Board of Directors (BOD) has a component of five members, which serves as the policy-making body of MAWAD.

MAWAD is headed by its General Manager (GM), Engr. Marcelo M. Petonio, assisted by two Division/Department Managers, Ms. Cecille A. Fabia, OIC-Commercial Division, and Ms. Marlyn C. de Guzman, Department Manager, Administration. It has 39 regular and co-terminus employees, 5 casuals, and 2 job-order personnel as of December 31, 2023. MAWAD serves all 30 barangays of the Municipality with total active service connections of 15,891.

### B. OPERATIONAL HIGHLIGHTS

For the Calendar Year (CY) 2023, the following are the accomplishments of MAWAD:

Programs/ Projects/ Activities	Actual Cost	Completion date	Percentage
a. Drilling of One Exploratory/ Production Well	3,363,900.00	May 4, 2023	100
b. Construction of Pumping Station with Backfilling and Perimeter Fence	1,997,902.51	September 15, 2023	100
c. Supply of Labor and Material for the Expansion of Distribution Lines for Water Supply	1,651,528.53	September 20, 2023	100

Particulars	2023	2022	Increase/ (Decrease)
Total Service Connections	17,220	16,592	628
Active Service Connections	15,891	15,292	599
Total Water Produced	5,158,695 m <sup>3</sup>	5,090,598 m <sup>3</sup>	68,097 m <sup>3</sup>

### C. FINANCIAL HIGHLIGHTS

The financial position and the results of operation of MAWAD for the year ended December 31, 2023, with the comparative figures for CY 2022 are presented as follows:

#### Comparative Financial Position and Results of Operations

For CY 2023, there was an increase in assets of 0.04%, a decrease in liabilities of 0.03%, an increase in equity of 0.04%, and a decrease of 0.28% in net income tabulated as follows:

Particulars	2023	2022	Increase/ (Decrease)	
			Amount	Percentage
Assets	193,186,362.62	186,426,069.46	6,760,293.16	0.04
Liabilities	8,968,348.26	9,256,993.02	(288,644.76)	(0.03)
Government Equity	184,218,014.36	177,169,076.44	7,048,937.92	0.04
Gross Income	71,837,822.66	70,041,637.56	1,796,185.10	0.03
Expenses	65,036,719.71	60,629,775.56	4,406,944.15	0.07
Net Income	6,801,102.95	9,411,862.00	(2,610,759.05)	(0.28)

#### Budget and Actual Expenditures

MAWAD expended 71 % of the total budget for CY 2023 presented as follows:

Particulars	2023		2022	
	Budget	Utilization	Budget	Utilization
Personnel Services	32,231,302.12	25,921,156.96	31,368,814.00	22,700,844.12
Maintenance and Other Operating Expenses	49,194,319.56	33,915,190.92	35,519,762.00	33,329,498.00
Financial Expenses	5,600.00	500.00	2,400.00	115.00
Capital Expenditures	23,450,219.00	14,629,300.26	20,800,000.00	14,077,967.75
<b>Total</b>	<b>104,881,440.68</b>	<b>74,466,148.14</b>	<b>87,690,976.00</b>	<b>70,108,424.87</b>
<b>Percentage of Utilization</b>		<b>71.00%</b>		<b>79.95%</b>



#### **D. SCOPE OF AUDIT**

Financial and compliance audit was conducted on the accounts and operations of MAWAD for the CY ended December 31, 2023. The audit included the review of operating procedures, interview with concerned officials and employees, verification, reconciliation and analysis of accounts, and such other procedures considered necessary. The audit also aimed to: (a) verify the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior years' audit recommendations.

The audit was focused on the 2023 audit thrusts issued by the Commission. Financial, compliance and operational audits were conducted to achieve the audit objectives.

#### **E. AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS**

A qualified opinion was rendered on the fairness of the presentation of the Financial Statements (FS) of MAWAD for the year ended December 31, 2023 in view of the following:

- The balance of Property Plant and Equipment (PPE) amounting to ₱145,925,055.03 was misstated due to:
  - a. erroneous recording of various properties totaling ₱111,540,357.53; and
  - b. Semi-Expendable Properties amounting to ₱198,079.00, which were already issued to end-users, were still included in the PPE account.
- Professional services and purchase taxes totaling ₱124,420.00, relative to the purchase of lot, were treated as outright expenses instead of being recognized as directly attributable costs.

#### **F. SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS**

Management was able to increase its revenue from waterworks system fees from ₱65,211,608.93 to ₱66,723,359.09, an increase of ₱1,511,750.26 or 2.32% of last year's income. Its net income from operations, however, decreased from last year's income of ₱9,411,862.00 to ₱6,801,102.95, or a decrease of ₱2,610,759.05.

Also, MAWAD was able to maintain Non-Revenue Water (NRW) of 20%, which is the maximum acceptable level as prescribed by LWUA under Memorandum Circular (MC) No. 004-10, dated February 23, 2010.

The following are the other significant observations and recommendations requiring due attention by Management:

1. The ownership of 11 parcels of land supposedly owned by MAWAD was not legally established, as they were not duly supported with the requisite documents of ownership as per Section 39(2) of PD No. 1445. Additionally, the cost of investments therein was not secured and is at risk of loss from possible third-party claims.

We recommended that Management follow through the process of acquiring Certificates of Title of the lots to establish the validity and legitimacy of MAWAD's ownership. Likewise, this will safeguard its investments on the properties.

2. Inventory accounts amounting to ₱3,694,231.95 were not supported with Subsidiary Ledgers (SLs) as required under Sections 111 and 114 of PD No. 1445, thus, existence and correct valuation of Inventory accounts could not be ascertained.

We recommended that the Management direct the Accountant to prepare and regularly update the subsidiary ledgers of the inventory accounts for audit, control, and monitoring purposes.

3. Payments totaling ₱9,408,544.84 for MAWAD's various expenses were not supported with sufficient documentary requirements, which do not comply with Sections 2 and 4 of PD No. 1445, and Commission on Audit (COA) Circular No. 2012-001, thus the validity and legality of the expenditures could not be ascertained.

We recommended that Management instruct the Accountant to strictly adhere to the provisions of Sections 2 and 4 of PD No. 1445, and COA Circular No. 2012-001 dated June 14, 2012, by ensuring that documents are complete and proper before processing claims against MAWAD's funds.

4. A tax rate of five percent instead of 10% was applied in the computation of taxes on the payment of the BOD's Per Diem, resulting in a deficiency amounting to ₱25,920.00 on taxes withheld and remitted by MAWAD. This is not in accordance with Section II of the Bureau of Internal Revenue (BIR) Revenue Memorandum Order (RMO) No. 23-2014 dated June 20, 2014, and BIR Revenue Regulation (RR) No. 11-2018 dated January 31, 2018, thus may result in imposition of penalties.

We recommended and Management agreed to direct the Accountant to withhold the correct amount of taxes on payments of BOD Per Diem in compliance with the provisions of aforecited BIR Regulations to avoid possible imposition of penalties.

## G. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

The status of implementation of prior years' audit recommendations is presented in the following table:

Status	Prior Years' Audit Recommendations	Percentage of Implementation
Implemented	8	66.67
Not Implemented	4	33.33
<b>Total</b>	<b>12</b>	<b>100.00</b>

## H. STATUS OF SETTLEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2023, MAWAD has unsettled disallowances amounting to ₱5,472,261.37 and no outstanding suspensions and charges, summarized as follows:

Particulars	Amount (₱)			
	Beginning Balance (12/31/2022)	CY 2023 Issuances		Ending Balance (12/31/2023)
		NS/ND/NC	NSSDC	
Suspensions	-	1,308,533.57	1,308,533.57	-
Disallowances	6,012,187.37	69,921.00	609,847.00	5,472,261.37
Charges	-	-	-	-
<b>Total</b>	<b>6,012,187.37</b>	<b>1,378,454.57</b>	<b>1,918,380.57</b>	<b>5,472,261.37</b>

## **TABLE OF CONTENTS**

<b>PART</b>	<b>TITLE</b>	<b>PAGE NO.</b>
<b>I</b>	<b>AUDITED FINANCIAL STATEMENTS</b>	
	• Independent Auditor's Report	1
	• Statement of Management's Responsibility For Financial Statements	3
	• Statement of Financial Position	4
	• Statement of Comprehensive Income	5
	• Statement of Changes in Equity	6
	• Statement of Cash Flows	7
	• Notes to Financial Statements	8
<b>II</b>	<b>OBSERVATIONS AND RECOMMENDATIONS</b>	24
<b>III</b>	<b>STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS</b>	52

## **PART I**

# **AUDITED FINANCIAL STATEMENTS**



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
**REGIONAL OFFICE NO. I**  
CORPORATE GOVERNMENT AUDIT SECTOR  
WATER DISTRICTS AND OTHER STAND ALONE AGENCIES  
City of San Fernando, La Union

**INDEPENDENT AUDITOR'S REPORT**

**The General Manager**  
**The Board of Directors**  
Mangaldan Water District  
Mangaldan, Pangasinan

**Qualified Opinion**

We have audited the financial statements of Mangaldan Water District (MAWAD), Mangaldan, Pangasinan which comprise the Statement of Financial Position as at December 31, 2023, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Bases of Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of MAWAD as at December 31, 2023, and its comprehensive income and its cash flows for the year then ended in accordance with the Philippine Financial Reporting Standards (PFRS).

**Bases for Qualified Opinion**

A qualified opinion was rendered on the fairness of presentation of the financial statements of MAWAD for the year ended December 31, 2023, for the following reasons:

- The balance of Property Plant and Equipment (PPE) amounting to ₱145,925,055.03 was misstated due to:
  - a. erroneous recording of various properties totaling ₱111,540,357.53; and
  - b. Semi-Expendable Properties amounting to ₱198,079.00, which were already issued to end-users, were still included in the PPE account.
- Professional services and purchase taxes totaling ₱124,420.00, relative to the purchase of lot, were treated as outright expenses instead of being recognized as directly attributable costs.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are independent of the agency in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Except for the matter described in the Bases for Qualified Opinion section, we have determined that there are no other key audit matters to communicate in our report.

### **Responsibilities of Management and those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

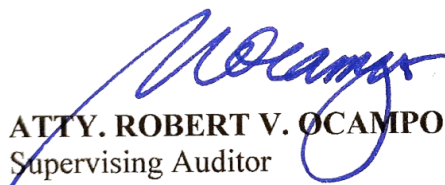
Those charged with governance are responsible for overseeing the MAWAD's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with ISSAIs will always detect material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **COMMISSION ON AUDIT**

**BY:**

  
**ATTY. ROBERT V. OCAMPO, SR.**  
Supervising Auditor  
March 19, 2024



Republic of the Philippines  
**MANGALDAN WATER DISTRICT**

Serafica St., Mangaldan, 2432 Pangasinan  
Tel. Nos. (075) 523-5884; (075)653-0574

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The Management of the MANGALDAN WATER DISTRICT is responsible for the preparation of the Financial Statements as of December 31, 2023, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the Financial Statements before such statements are issued to the regulators, creditors, and other users.

**FORMER MAYOR TIPO B. SARZABA, JR.**

*Chairman of the Board*

January 26, 2024

Date Signed

**AIRA JANE G. PEREZ, CPA**  
*Senior Corporate Accountant A*

January 26, 2024

Date Signed

**ENGR. MARCELO M. PETONIO**

*General Manager B*

January 26, 2024

Date Signed

***“Water is life..... Use it Wisely”***



**Mangaldan Water District**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the period ended December 31, 2023**

**1. General Information/ Agency Profile**

MAWAD is located at Serafica Street, Poblacion, Mangaldan, Pangasinan. It was organized by virtue of Sangguniang Bayan Resolution No. 38, dated May 12, 1979. It acquired autonomy of management from the Municipal Government of Mangaldan when CCC No. 139 dated October 6, 1980 was issued by the LWUA entitling it to have access to its technical, financial and institutional assistance to improve and develop the water supply system in the area. MAWAD, a GOCC, was re-categorized as Category B on February 23, 2015.

MAWAD is headed by its GM, Engr. Marcelo M. Petonio, and has a total manpower complement of 46 composed of 37 permanent, 2 co-terminus, 4 casuals, and 3 job-order personnel. MAWAD serves all the 30 barangays in the municipality with 16,592 total service connections. Under PD No. 198, MAWAD is mandated of the following services:

- a) To acquire, install, improve, maintain and operate water supply and distribution system for domestic, industrial, municipal and commercial uses for residents within the boundaries of MAWAD;
- b) To provide, maintain and operate waste water collection, treatment and disposal facilities; and,
- c) To conduct such other functions and operations incidental to water resource development, utilization and disposal within MAWAD, as are necessary or incidental to said purpose.

The governing body of MAWAD is the Board of Directors which is composed of five members representing the sector opposite their names:

<b>Name/Position</b>	<b>Sector</b>	<b>Term of Office</b>
Mr. Tito B. Sarzaba <i>Board of Director (BOD) Chairman</i>	Business	January 1, 2019 to December 31, 2024
Engr. Cesar C. Dizon <i>BOD Vice-Chairman</i>	Education	January 1, 2019 to December 31, 2024
Engr. Francisco M. Evangelista, Jr. <i>BOD Secretary/ Member</i>	Civic	January 1, 2023 to December 31, 2028
Mrs. Nelda A. Cabrera <i>BOD Treasurer/ Member</i>	Professional	January 1, 2021 to December 31, 2026
Mrs. Irene L. Macaraeg <i>BOD Member</i>	Women	January 1, 2023 to December 31, 2028

## **2. Basis of Preparation**

The financial statements of the MAWAD have been prepared in accordance with the PFRS, which was mandated to be adopted by all Government Corporations by virtue of COA Circular No. 2015-003 dated April 16, 2015. The financial statements are presented in Philippine Peso (₱), which is the functional and reporting currency of the MAWAD.

## **3. Summary of Significant Accounting Policies**

### **3.1. Basis of Accounting**

The financial statements are prepared on an accrual basis in accordance with the PFRS. Accounts were classified to conform to the Revised Chart of Accounts prescribed under COA Circular No. 2020-002 dated January 28, 2020.

#### **3.1.1 Current versus Non-current Classification**

MAWAD presents assets and liabilities in the statement of financial position based on current or noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period;

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

### **3.2. Financial Instruments**

#### **Financial Assets**

##### *Initial Recognition and Measurement*

Financial assets are classified as financial assets at fair value through surplus or deficit and receivables. MAWAD determines the classification of its financial assets at initial recognition. It also includes cash and short-term deposits, trade, and, other receivables.

### *Derecognition*

MAWAD derecognizes a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when:

- a. The rights to receive cash flows from the asset have expired or waived.
- b. MAWAD has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either: (a) MAWAD has transferred substantially all the risks and rewards of the asset; or (b) MAWAD has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### *Impairment of Financial Assets*

MAWAD assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset.

### *Financial Assets Carried at Amortized Cost*

For financial assets carried at amortized cost, MAWAD first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If MAWAD determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

## **Financial Liabilities**

### *Initial Recognition and Measurement*

Financial liabilities within the scope of PAS 32 and 39, and PFRS 37 are classified as financial liabilities at fair value through surplus or deficit. MAWAD determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

### *Subsequent Measurement*

The measurement of financial liabilities depends on their classification.

### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

## **3.3. Cash and Cash Equivalents**

Cash and Cash Equivalents comprise of cash on hand and cash in bank.

## **3.4. Inventories**

Inventory is measured at cost upon initial recognition.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of MAWAD, specific identification cost method is used which attaches the actual cost to the identified unit of product.

Procurement of materials were treated and recorded as materials held for consumption and for sale. The materials for sale are with a minimum mark-up to cover the cost of handling.

## **3.5. Property, Plant and Equipment**

### *Recognition*

An item is recognized as PPE if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

- tangible items;
- held for use in the production or supply of goods or services, and,

- expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- The cost or fair value of the item can be measured reliably.

#### *Measurement at Recognition*

An item recognized as PPE is measured at cost.

Cost includes the following:

- purchase price,
- expenditure that is directly attributable to the acquisition of the items; and
- initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

#### *Measurement after Recognition*

After recognition, all PPE are stated at cost less accumulated depreciation. When significant parts of PPE are required to be replaced at intervals, MAWAD recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

#### *Depreciation*

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each period is recognized as expense.

#### *Initial Recognition of Depreciation*

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

### *Depreciation Method*

The straight-line method of depreciation is adopted.

### *Estimated Useful Life*

MAWAD uses the Schedule on the Estimated Useful Life of PPE by classification prepared by COA. MAWAD uses a residual value equivalent to 10% of the cost of the PPE.

### *Derecognition*

MAWAD derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

## **3.6. Changes in Accounting Policies and Estimates**

The MAWAD recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy on PPE for tangible items below the threshold of ₱50,000.00 are applied retrospectively.

The MAWAD recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

The MAWAD corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or
- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

## **3.7. Revenue Recognition**

### **Revenue from Exchange Transactions**

#### *Rendering of Services*

MAWAD recognizes revenue from rendering of services upon delivery or completion thereof. Revenue is recognized in the accounting period in which

the services are rendered and when the associated expenses for a transaction are incurred. Revenue is recognized only when it is probable that the economic benefits associated with the transactions will flow to the entity.

### **3.8. Employee Benefits**

The employees of MAWAD are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

MAWAD recognizes the employee benefits like salaries, wages, allowances, etc. as expense and as a liability after deducting the amount paid.

### **3.9. Related Parties**

MAWAD regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over MAWAD or vice versa. Members of key management are regarded as related parties and comprise the BOD and GM.

## **4. Cash and other Cash Equivalents**

### **4.1. Cash - Collecting Officers**

<b>Account</b>	<b>2023</b>	<b>2022</b>
Cash - Collecting Officers	137,571.29	215,175.20

This pertains to cash collections in the custody of the Cashier as of December 31, 2022 and was deposited on January 3, 2023.

### **4.2. Petty Cash**

<b>Account</b>	<b>2023</b>	<b>2022</b>
Petty Cash	10,000.00	5,000.00

**Petty Cash Fund** is operated on an Imprest System. This consists of the cash for small expenditures of MAWAD.

### **4.3. Cash in Bank - Local Currency, Current Account**

<b>Account</b>	<b>2023</b>	<b>2022</b>
Cash in Bank – Local Currency Current Account CA	73,119,125.75	75,077,841.44
Cash in Bank – Local Currency Current Account CA-EBCS	1,285,644.05	730,800.75
<b>Total Cash in Bank – LCCA</b>	<b>74,404,769.80</b>	<b>75,808,642.19</b>

#### 4.4. Cash Equivalents – Time Deposit

Account	2023	2022
Cash Equivalents - Time Deposit – Customer’s Deposit	3,449,992.40	3,819,800.51
Cash Equivalents - Time Deposit - MSF	9,694,689.95	9,655,566.07
<b>Total Cash Equivalents – Time Deposit</b>	<b>13,144,682.35</b>	<b>13,475,366.58</b>

<b>Total Cash and Cash Equivalents</b>	<b>87,697,023.44</b>	<b>89,504,183.97</b>
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This account represents cash deposits maintained by MAWAD in current and time deposits accounts with Authorized Government Depository Bank. Cash in Bank earns interests based on the prevailing bank deposit rates.

**Cash in Bank – Local Currency Current Account** amounting to ₱73,119,125.75 represents revolving fund of MAWAD.

**Cash in Bank – Local Currency Current Account** amounting to ₱1,285,644.05 pertains to funds used for online transactions such as remittances to BIR, PhilHealth and Pag-IBIG.

**Cash Equivalents – Time Deposit – Customer’s Deposit** totaling ₱3,449,992.40 represents fund for customer’s deposit.

**Cash Equivalents – Time Deposit - MSF** amounting to ₱9,694,689.95 is fund set aside for retirement and benefits of MAWAD employees.

#### 5. Investment

Account	2023	2022
Sinking Fund	-	11,834,352.36

**Sinking Fund** - refers to the joint savings account of MAWAD and LWUA which serves as a cash reserve to ensure payment of loans to LWUA and as an operational, maintenance and capital reserve. However, MAWAD has no outstanding loan payable to LWUA as of this writing, hence, this fund was reclassified as Restricted Fund for proper presentation.

#### 6. Receivables

Account	2023	2022
Accounts Receivable	2,321,123.85	3,300,273.25

**Accounts Receivable** - This account represents the amount due from consumers arising mainly from the water sales.



Account	2023	2022
Allowance for Impairment - AR	103,589.51	113,990.70

The percentages are as follows:

Age / Years	Percentage
1-60 days	3%
61-180 days	5%
181-365 days	10%
1-2 years	12%
3-4 years	14%
5-6 years	16%
7-8 years	18%
9-10 years	20%
11-14 years	30%
15-20 years	50%

**Allowance for Impairment - Accounts Receivable** - This account is credited upon recognition of impairment which may arise from non-collection of receivables. Basis on the computation of said account is a policy approved by MAWAD Board under Resolution No. 35, S. 2022 dated September 9, 2022

Account	2023	2022
Other Receivables	244,000.00	244,000.00

**Other Receivables** - This account refers to the energy deposit with the Central Pangasinan Electric Company (CENPELCO).

## 7. Inventories

This account represents the balance of inventories as of the balance sheet date.

Account	2023	2022
Merchandise Inventory	1,951,169.63	1,341,071.17
Office Supplies Inventory	88,631.73	83,260.75
Accountable Forms Inventory	480,389.57	1,057,803.42
Fuel, Oil and Lubricants Inventory	21,888.97	21,888.97
Chemical & Filtering Supplies Inventory	140,000.00	384,000.00
Construction Materials Inventory	1,012,152.05	482,621.98
<b>Total</b>	<b>3,694,231.95</b>	<b>3,370,646.29</b>

## 8. Property, Plant and Equipment

This account pertains to assets used in the normal utility operation with expected lives of more than one year as follows:

Account	As of 12/31/2022	Additions	Adjustments	As of 12/31/2023
Land	3,995,235.00	1,277,500.00	-	5,272,735.00
Land Improvements	173,435.00	-	-	173,435.00
Infrastructure Assets	91,205,494.87	9,055,361.91	(103,200.00)	100,157,656.78
Building and Other Structures	12,913,334.45	-	-	12,913,334.45
Machinery and Equipment	10,013,043.00	1,246,860.00	-	11,259,903.00
Transportation Equipment	4,766,731.67	-	-	4,766,731.67
Furniture and Fixtures and Books	61,201.85	-	-	61,201.85
Other Property, Plant and Equipment	8,264,407.28	3,055,650.00	-	11,320,057.28
Construction in Progress	196,166.00	7,013,331.04	(7,209,497.04)	-
<b>Subtotal</b>	<b>131,589,049.12</b>	<b>21,648,702.95</b>	<b>(7,312,697.04)</b>	<b>145,925,055.03</b>
Less: Total Accumulated Depreciation	53,537,837.13	5,187,923.02	-	58,725,760.15
<b>PPE, Net</b>	<b>78,051,211.99</b>	<b>16,460,779.93</b>	<b>(7,312,697.04)</b>	<b>87,199,294.88</b>

Of these amounts, fully depreciated properties are identified as follows:

Account	2023	2022
Infrastructure Assets	4,916,547.33	4,748,516.68
Building and Other Structures	137,049.97	74,406.50
Machinery and Equipment	5,219,570.00	4,470,672.00
Transportation Equipment	3,143,131.67	1,574,451.67
Furniture, Fixtures and Books	61,201.85	61,201.85
Other Property, Plant and Equipment	7,149,905.58	4,863,689.18
<b>Total Fully Depreciated PPE</b>	<b>20,627,406.40</b>	<b>15,792,937.88</b>

## 9. Other Assets

Account	2023	2022
Prepaid Insurance	251,973.44	235,392.30
Restricted Fund	11,882,304.57	-
<b>Total</b>	<b>12,134,278.01</b>	<b>235,392.30</b>

**Prepaid Insurance** - pertains to payments made in advance for insurance coverage of motor vehicles, pumping stations and buildings owned by MAWAD.

**Restricted Fund** - This account is reserved for repairs/rehabilitation of the water supply connection in cases of emergency which was previously recorded under Sinking Fund account.

## **10. Financial Liabilities**

### **10.1. Accounts Payable**

This includes the unpaid expenses and obligations incurred by MAWAD.

<b>Account</b>	<b>2023</b>	<b>2022</b>
Accounts Payable	1,259,252.25	1,709,096.83

## **11. Inter-Agency Payables**

This account includes the amount for remittance to BIR, GSIS, Philhealth, and Pag-IBIG as follows:

<b>Account</b>	<b>2023</b>	<b>2022</b>
Due to BIR	306,168.18	391,447.73
Due to GSIS	359,269.07	418,681.60
Due to Pag-IBIG	42,066.03	29,870.96
Due to PhilHealth	45,598.12	44,753.16
<b>Total Inter-Agency Payables</b>	<b>753,101.40</b>	<b>884,753.45</b>

## **12. Trust Liabilities**

**12.1. Trust Liabilities** - This account represents the refund of Disallowance made by employees pending the decision of the petition for review filed with COA.

<b>Account</b>	<b>2023</b>	<b>2022</b>
Trust Liabilities	2,904,462.00	2,282,615.00
<b>Total Trust Liabilities</b>	<b>2,904,462.00</b>	<b>2,282,615.00</b>

**12.2. Guaranty/Security Deposits Payable** – This account represents receipts of cash bond which guarantee the performance of the contract.

<b>Account</b>	<b>2023</b>	<b>2022</b>
Guaranty/Security Deposits Payable	632,092.36	951,720.14
<b>Total Guaranty/Security Deposits Payable</b>	<b>632,092.36</b>	<b>951,720.14</b>

**12.3. Customer's Deposit Payable** – This comprises the deposits made by consumers as security for the payment of subsequent bill.

Account	2023	2022
Customer's Deposit Payable	3,419,440.25	3,428,807.60
<b>Total Customer's Deposit Payable</b>	<b>3,419,440.25</b>	<b>3,428,807.60</b>

### 13. Retained Earnings

Account	2023	2022
Retained Earnings, beginning balance	176,553,356.44	171,127,139.73
Prior Period Adjustments:	293,915.61	(1,373,330.59)
Restated Balance	176,847,272.05	169,753,809.14
Other Adjustments	(46,080.64)	(2,612,314.70)
Net Income	6,801,102.95	9,411,862.00
<b>Ending Balance</b>	<b>183,602,294.36</b>	<b>176,553,356.44</b>

### Adjustments

	Debit	Credit	Balance
Prior Period Errors	-	293,915.61	293,915.61
Other Adjustments	102,846.50	56,765.86	(46,080.64)

**Details of Adjustments are as follows:**

#### *Prior Period Adjustments*

Particulars	Amount
Refund of Representation Expense, last March 2022	2,461.79
Reconciliation of GL and SL balances of Customer's Deposit Payable	1,800.00
Adjustment on Construction Materials Inventory	289,653.82
<b>Total</b>	<b>293,915.61</b>

#### *Other Adjustments*

Particulars	Amount
Grant of 50% leave credits monetization (P. Noe)*	( 41,831.68)
Reversal of Accounts Payable	12,799.36
*Reclassification of the leave credits monetization (P. Noe)	41,831.68
Reversal of stale check**	2,134.82
Grant of one-time Rice Assistance to MAWAD employees	(58,880.00)
**Issued new check, in replacement of the stale check	(2,134.82)
<b>Total</b>	<b>( 46,080.64)</b>

#### 14. Revenue/ Income

Account	2023	2022
<b>Service and Business Income</b>		
Fines and Penalties – Business Income	3,076,851.24	3,059,503.97
Other Business Income	1,630,084.22	1,340,315.93
Waterworks System Fees, net of adjustments	66,723,359.09	65,211,608.93
Interest Income	180,028.11	153,708.73
<b>Total Service and Business Income</b>	<b>71,610,322.66</b>	<b>69,765,137.56</b>

**14.1. Waterworks System Fees** - This pertains to revenue earned from the generation, transmission and distribution of water service connection to customers.

**14.2. Interest Income** - This pertains to interests earned on bank deposits.

**14.3. Fines and Penalties - Business Income** - This account is used to recognize income arising from the collection of penalties to customers for delinquent payment of their water bill.

**14.4. Other Business Income** - This pertains to the fees earned from registration, relocation, reconnection and disconnection of water service connections including a minimal mark-up of the materials used by new consumers to cover the cost of handling of the materials.

#### 15. Shares, Donations and Grants

Account	2023	2022
Donations	227,500.00	276,500.00

**15.1. Donation in kind** represents the portion of land in Barangays Anolid and Banaoang, donated to MAWAD.

#### 16. Personnel Services

Account	2023	2022
Salaries, Wages-Regular	13,226,547.40	13,453,457.50
Salaries, Wages-Casual/Contractual	905,393.94	468,026.03
Personnel Economic Relief Allowance	1,010,064.89	1,001,129.94
Representation Allowance (RA)	309,500.00	325,420.00
Transportation Allowance (TA)	309,500.00	299,500.00
Clothing Allowance	246,000.00	234,000.00
Honoraria	65,000.00	604,800.00
Overtime Pay	-	11,299.68

Account	2023	2022
Year-End Bonus	1,143,733.20	1,204,551.40
Cash Gift	209,000.00	218,000.00
Mid-Year Bonus	1,151,088.00	1,145,459.00
Directors and Committee Members' Fees	946,080.00	-
Other Bonuses & Allowances	1,838,887.91	1,095,000.00
Retirement Life and Insurance Contribution	1,701,689.12	1,672,974.91
Pag-IBIG Contribution	51,100.00	50,400.00
PhilHealth Insurance	265,509.06	262,787.75
Employees Compensation Insurance Premium	51,100.00	50,400.00
Other Personnel Benefits	2,490,963.44	603,637.91
<b>Total</b>	<b>25,921,156.96</b>	<b>22,700,844.12</b>

## 17. Maintenance and Other Operating Expenses

Account	2023	2022
Travelling Expenses – Local	179,431.50	24,040.00
Training Expenses	408,164.88	19,340.00
Office Supplies	287,520.03	220,272.36
Accountable Forms	577,413.85	658,733.39
Medical, Dental and Laboratory Supplies	146,880.00	172,880.00
Fuel, Oil and Lubricants	809,449.62	1,118,533.57
Chemical and Filtering Supplies Expenses	877,600.00	578,120.00
Semi-Expendable Machinery and Equipment	299,130.01	195,491.90
Semi-Expendable Furniture and Fixtures	5,500.00	72,071.00
Housekeeping/Cleaning Supplies Expense	21,503.15	17,636.00
Water Expenses	8,547.00	7,399.00
Electricity Expenses	24,759,953.02	24,345,881.17
Other Utility Expenses	8,222.00	6,923.00
Postage and Courier Services	5,173.00	5,808.00
Telephone Expenses	298,780.10	372,865.72
Internet Subscription Expenses	13,200.00	13,200.00
Cable, Satellite, Telegraph and Radio Expenses	5,510.00	6,500.00
Awards/Rewards Expenses	3,600.00	1,200.00
Survey Expenses	16,000.00	-
Extraordinary and Miscellaneous Expenses	135,600.00	333,766.11
Legal Services	132,700.00	87,700.00
Auditing Services	240,516.74	251,948.88
Consultancy Services	43,680.00	86,240.00
Security Services	571,500.00	570,000.00
Other General Services	36,220.05	62,472.02
Repair & Maintenance-Land Improvements	-	-
Repair & Maintenance-Infrastructure Assets	202,425.46	253,803.16

<b>Account</b>	<b>2023</b>	<b>2022</b>
Repair & Maintenance-Buildings and Other Structures	6,710.98	177,062.11
Repair & Maintenance-Machinery and Equipment	106,809.00	47,848.00
Repair & Maintenance-Transportation Equipment	25,813.50	67,772.61
Repair & Maintenance-Furniture and Fixtures	7,060.40	4,472.75
Repair & Maintenance-Other Property, Plant and Equipment	56,690.00	15,580.00
Taxes, Duties and Licenses	1,506,045.38	1,370,321.38
Fidelity Bonds Premium	28,125.00	19,800.00
Insurance Expenses	259,191.82	280,560.13
Labor and Wages	766,905.58	822,628.30
Advertising, Promotional, Marketing Expense	7,000.00	-
Printing and Publication Expenses	249,402.00	268,614.00
Representation Expense	678,772.10	621,460.44
Rent/Lease Expenses	72,600.00	110,925.00
Membership Dues & Contributions to Organization	15,292.00	-
Subscription Expenses	14,260.00	14,728.00
Donations	20,292.75	24,900.00
<b>Total</b>	<b>33,915,190.92</b>	<b>33,329,498.00</b>

## 18. Non-Cash Expenses

<b>Account</b>	<b>2023</b>	<b>2022</b>
Depreciation Expense – Land Improvements	15,609.15	15,609.15
Depreciation Expense – Infrastructure Assets	3,156,823.97	2,854,897.84
Depreciation Expense – Buildings and Other Structures	474,991.44	299,999.09
Depreciation Expense – Machinery and Equipment	609,580.85	514,261.02
Depreciation Expense – Transportation Equipment	263,775.00	287,305.20
Depreciation Expense – Furniture, Fixtures and Books	-	-
Depreciation Expense – Other Property, Plant and Equipment	667,142.61	618,450.34
Impairment Loss – Loans and Receivables	11,948.81	-
Loss on Sale of PPE	-	8,795.80
<b>Total Non-Cash Expenses</b>	<b>5,199,871.83</b>	<b>4,599,318.44</b>

## 19. Financial Expenses

Account	2023	2022
Bank Charges	500.00	115.00
<b>Total Financial Expenses</b>	<b>500.00</b>	<b>115.00</b>



## **PART II**

### **OBSERVATIONS AND RECOMMENDATIONS**

## OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL AND COMPLIANCE AUDIT

#### *Erroneous recording of purchase of lot*

1. Professional services and purchase taxes totaling ₱124,420.00, relative to purchase of lot, were treated as outright expenses instead of being recognized as directly attributable costs forming part of the acquisition cost of the lot. This accounting treatment is not in conformity with Philippine Accounting Standards (PAS) 16, resulting in an understatement of the land account by the same amount.

- 1.1. Paragraph 16 (b) of PAS 16 provides:

16. The cost of an item of property, plant and equipment comprises:

(b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management...

- 1.2. MAWAD purchased a parcel of land measuring 500 square meters as indicated in Transfer Certificate of Title (TCT) No. 026-2021004389. The property, located at Barangay Maasin, Mangaldan, Pangasinan, was purchased for ₱1,050,000.00. Upon inquiry with the Management, it was disclosed that the lot is intended for the construction of a new pumping station wherein drilling activity is ongoing as of this writing.
- 1.3. Further verification revealed that a separate payment was made to a private person for the processing fee, BIR registration, registration to the Registry of Deeds and other taxes related to the acquired lot. However, the total amount was recorded in MAWAD's books under the Taxes, Duties and Licenses account, instead of treating the payment as directly attributable costs, which should have been capitalized and included as part of the cost of the lot. Thus, resulting in an understatement of the land account by ₱124,420.00. Details are shown below:

Date	DV No.	Check No.	Payee	Particulars	Amount
6/8/2023	DV-2023-06-326	82538119	Melencio Baonguis, Jr.	Payment for the processing fee, BIR registration, registration to the Register of Deeds, Lingayen and other taxes related to the transfer of lot purchased by the Mangaldan Water District in Brgy. Maasin, Mangaldan, Pangasinan.	124,420.00

1.4. Breakdown of payment is as follows:

Capital Gains Tax	₱ 63,000.00
Documentary Stamp Tax	15,750.00
Processing fees	15,482.88
Professional services	30,187.12
<b>Total</b>	<b>₱124,420.00</b>

1.5. Based on our evaluation, such transaction does not fall within the scope of the account used but are more appropriately recorded on the suggested account. The definitions of accounts are shown in the following table:

Account Used	Suggested Account
Taxes, Duties and Licenses 5 02 15 010	Land 1-06-01-010
This account is debited to recognize the amount of taxes, duties, licenses and other fees except income tax due to regulatory entities. This also includes taxes on interest income on savings deposits, time deposits, and government securities of the bond sinking fund/other funds. This account is credited, at year end, to close to the Revenue/Income and Expense Summary account, and/or effect adjustments.	This account is debited to recognize the cost incurred in the purchase/reclamation, or fair value, if acquired through donation or transfers without cost, of land. This account is credited upon sale, transfers, donations, reclassification to investment property or inventory, other disposals, and/or adjustments.

1.6. Due to the erroneous recording of the transaction, individual accounts affected were inaccurate, thereby affecting the fair presentation of the accounts.

1.7. **We recommended that Management instruct the Accountant to reclassify and prepare the necessary adjusting entry to correct the misclassified accounts following the Revised Chart of Accounts (RCA) for Government Corporations (GC). The proposed adjusting entry is as follows:**

<i>Land</i>	<i>124,420.00</i>
<i>Taxes, Duties and Licenses</i>	<i>124,420.00</i>

1.8. During the exit conference, the Accountant agreed to reclassify and prepare the necessary adjusting entry to correct the misclassified accounts.

#### ***Misstatement of PPE Account***

2. **The total balance of PPE accounts, amounting to ₱145,925,055.03, was misstated due to (a) erroneous recording of various properties, which is inconsistent with the Conceptual Framework of the Philippine Financial Reporting Standards (PFRS) and COA Circular No. 2020-002 dated January 28, 2020; and (b) Semi-Expendable Properties totaling ₱198,079.00 were still included in PPE account,**

**which is not in accordance with COA Circular No. 2022-004 dated May 31, 2022, thereby impacting the fair presentation of the accounts.**

2.1. The breakdown of PPE of MAWAD as of December 31, 2023 is as follows:

Account	Per FS	Accumulated Depreciation	Net
Land	5,272,735.00	-	5,272,735.00
Land Improvements	173,435.00	127,474.66	45,960.34
Infrastructure Assets	100,157,656.78	36,100,661.24	64,056,995.54
Building and Other Structures	12,913,334.45	4,877,010.53	8,036,323.92
Machinery and Equipment	11,259,903.00	6,589,982.16	4,669,920.84
Transportation Equipment	4,766,731.67	3,482,110.92	1,284,620.75
Furniture, Fixtures and Books	61,201.85	61,201.85	-
Other Property, Plant and Equipment	11,320,057.28	7,487,318.79	3,832,738.49
<b>Total</b>	<b>145,925,055.03</b>	<b>58,725,760.15</b>	<b>87,199,294.88</b>

**(a) Erroneous Recording of Various Properties**

2.2. The PFRS, under its Conceptual Framework states:

QC12. Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.

2.3. Moreover, COA prescribed through COA Circular No. 2020-002 dated January 28, 2020 the adoption of the Updated RCA for GC. The new chart of accounts shall be used for the recording of transactions effective January 1, 2019.

2.4. Review of the PPE account disclosed that various properties were erroneously recorded. A summary of amounts misclassified per major account is shown in the following table:

Particulars	Per FS	Should Be	Misclassification
Land	5,272,735.00	5,272,735.00	-
Land Improvements	173,435.00	236,078.47	62,643.47
Infrastructure Assets:			
Water Supply Systems- Wells, Reservoir, PS	39,638,956.23	-	39,638,956.23
Water Supply Systems- Waterways, Aqueducts	55,053,436.79	-	55,053,436.79
Power Supply Systems	5,465,263.76	-	5,465,263.76
Buildings	9,788,939.70	9,788,939.70	-
Other Structures	3,124,394.75	3,061,751.28	62,643.47

Particulars	Per FS	Should Be	Misclassification
Plant - Utility Plant in Service (UPIS)	-	96,074,393.02	96,074,393.02
Machinery and Equipment:			
Office Equipment	601,654.00	487,750.00	113,904.00
ICT Equipment	796,675.00	712,500.00	84,175.00
Other Machinery and Equipment	9,861,574.00	25,264,895.04	15,403,321.04
Transportation Equipment	4,766,731.67	4,766,731.67	-
Furniture, Fixtures and Books	61,201.85	61,201.85	-
Other Property, Plant and Equipment	11,320,057.28	-	11,320,057.28
<b>Sub-Total</b>	<b>145,925,055.03</b>	<b>145,726,976.03</b>	<b>223,278,794.06</b>
Semi-Expendable Machinery and Equipment	-	198,079.00	198,079.00
<b>Total</b>	<b>145,925,055.03</b>	<b>145,925,055.03</b>	<b>223,476,873.06</b>

2.5. Based on our evaluation, such items of PPE do not fall within the scope of the accounts used, rather should be more appropriately recorded on the suggested accounts. The definitions of accounts are shown in the following table:

Particulars	Account Used	Suggested Account
<ul style="list-style-type: none"> <li>Cost of perimeter fence at PH #1</li> </ul>	<p>Other Structures 1 06 04 990</p> <p>This account is debited to recognize the cost incurred in the purchase or construction, or fair value if acquired through donation or transfers without cost, of other structures for use in government operations or for income generating purposes.</p>	<p>Other Land Improvements 1 06 02 990</p> <p>This account is debited to recognize the cost incurred in the purchase or construction, or fair value, if acquired through donation or transfers without cost, of land improvements such as parking lots, landscape, walkways, driveways, covered walks, fences, roads within the entity's premises, and the like.</p>
<ul style="list-style-type: none"> <li>Wells</li> <li>Reservoir</li> <li>Pumping Station</li> <li>Waterways</li> <li>Aqueducts</li> </ul>	<p>Water Supply Systems 1 06 03 040</p> <p>This account is debited to recognize the cost incurred in the purchase or construction, or fair value, if acquired through donation or transfers without cost, of water source facility such as artesian wells, dams/ reservoirs, pumping stations and conduits; irrigation canals and laterals; waterways, aqueducts, water utilities systems and other water supply facilities for public use or for income generating purposes. This account is credited upon authorized disposal of the asset, derecognition of the carrying amount of the replaced portion, and/ or adjustments.</p>	<p>Plant – Utility Plant in Service (UPIS) 1 06 03 110</p> <p>This account is debited to recognize utility plant in service of water districts.</p> <p>Subsidiary Ledgers: 01 – Collecting and Impounding Reservoirs 02 – Lake, River, and Other Intakes 03 – Springs and Tunnels 04 – Wells 05 – Supply Mains 06 – Other Source of Supply Plant</p>

Particulars	Account Used	Suggested Account
<ul style="list-style-type: none"> <li>• Electric Power</li> <li>• Transformer</li> <li>• Variable frequency speed drive</li> <li>• Variable frequency controller</li> <li>• Power board and power module</li> </ul>	Power Supply Systems 1 06 03 050 This account is debited to recognize the cost incurred in the purchase or construction, or fair value, if acquired through donation or transfers without cost, of installations for generation, transmission and distribution of electricity such as power stations, electric transformers and other power and energy supply facilities for public use or for income generating purposes. This account is credited upon authorized disposal of the asset, derecognition of the carrying amount of the replaced portion, and/or adjustments.	Other Machinery and Equipment 1 06 05 990 This account is debited to recognize the cost incurred in the purchase or assembly, or fair value, if acquired through donation or transfers without cost, of other machinery and equipment, not otherwise classified under the specific machinery and equipment accounts, which met the prescribed capitalization threshold. This account is credited upon sale, transfers, losses, destruction, derecognition of the carrying amount of the replaced portion, other disposals, and/or adjustments.
<ul style="list-style-type: none"> <li>• Submersible Pumps</li> <li>• Submersible motors</li> <li>• Control Panel</li> <li>• Jackhammer</li> <li>• Transformer</li> </ul>	Other Property, Plant and Equipment 1 06 99 990 This account is debited to recognize the cost of acquisition or fair value, if acquired through donation or transfers without cost, of other property, plant and equipment not falling under any of the specific Property, Plant and Equipment account.	
<ul style="list-style-type: none"> <li>• Flow meter</li> </ul>	Other Property, Plant and Equipment (refer to the aforecited description)	Plant – Utility Plant in Service (UPIS) (refer to the aforecited description)

2.6. Due to the erroneous recording of the transactions, individual accounts affected were inaccurate, thereby impacting the fair presentation of the accounts.

**(b) Semi-Expendable Properties amounting to ₱198,079.00 included in PPE**

2.7. Section 4.1 of COA Circular No. 2022-004 dated May 31, 2022 on the Implementing Guidelines states:

Tangible items which meet the definition and recognition criteria of PPE but cost are below Fifty Thousand Pesos (₱50,000.00) shall be accounted in the books of accounts of the agencies as semi-expendable property. This shall be supported by the issuance of the Inventory

Custodian Slip (ICS) to establish accountability of the end-user. ICS shall be issued to the end-user and shall be renewed every three years or every time there is a change in custodianship/ user of the property. The threshold shall be applied on an individual asset or per item basis...

- 2.8. Review of the PPE items showed that several semi-expendable properties totaling ₱198,079.00 were still included in the PPE account, summarized as follows:

Particulars	Date Acquired	Cost	Accumulated Depreciation	Carrying Amount	Account Used
1 unit of airconditioning unit installed at Admin. Division (1HP)	April 2019	27,284.00	22,918.56	4,365.44	Office Equipment
one (1) unit split type airconditioner 2.5hp (non-inverter) and one (1) unit split type airconditioner 2.0hp (non-inverter) with installation fee - for the MAWAD Extension Building  2.5 hp- ₱42,128.00 2 hp- 33,492.00 Installation- ₱11,000.00	August 3021	86,620.00	36,380.40	50,239.60	Office Equipment
4 sets CPU complete w/ accessories  1 set= ₱21,043.75	October 2009	84,175.00	75,757.50	8,417.50	IT Equipment & Software
<b>Total</b>		<b>198,079.00</b>	<b>135,056.46</b>	<b>63,022.54</b>	

- 2.9. As shown in the preceding table, the acquisition costs of the items were below the capitalization threshold of ₱50,000.00, hence shall be considered as Semi-Expendable Other Machinery and Equipment and the carrying amount shall be adjusted to expense accounts charged against the Retained Earnings following Sections 4.2 and 4.3 of the same COA Circular on the accounting of semi-expendable properties which provide:

- 4.2 The increase in the capitalization threshold from ₱15,000.00 to ₱50,000.00 shall be considered as a change in accounting policy and shall be applied retrospectively. It means that the new capitalization threshold of ₱50,000.00 shall be applied for all tangible items purchased in calendar year (CY) 2022 onwards and in the prior years.

4.3 For issued tangible items acquired prior to CY 2022 with amounts from ₱15,000.00 to below ₱50,000.00 previously classified as PPE:

- a. The carrying amount shall be expensed/charged to the following accounts, as applicable:
  - ii. Retained Earnings/(Deficit) for GCs classified as Commercial Public Sector Entities.
- b. The corresponding accumulated depreciation and accumulated impairment loss shall be closed in the books of accounts.
- c. The existing Property Acknowledgment Receipts (PARs) for these items may be retained by the end-users and shall serve as the ICS until their accountabilities for such items are extinguished. Thus, the existing PARs need not be replaced with new ICS.

2.10. As a result of the inclusion of the said items, the affected PPE accounts were misstated.

2.11. Verification of records also disclosed that Semi-Expendable Properties were included in the Report on the Physical Count of Property, Plant and Equipment (RPCPPE), instead of presenting the same in a separate report which is the Report on the Physical Count of Semi-Expendable Property (RPCSP).

2.12. On the other hand, while the Management conducted a physical count of PPE for CY 2023 and the corresponding RPCPPE was also prepared and forwarded to the Audit Team, it can be noted that some details on the said report were not provided such as property number and acquisition costs, thus, the difficulty in reconciliation between the property records and accounting records.

2.13. Review of documents also showed that Motor Vehicles account indicated in the RPCPPE has a total balance of ₱4,784,731.67, while in the SL, such account has a balance of ₱4,766,731.67, leaving a discrepancy of ₱18,000.00.

2.14. The noted discrepancy makes the reported balance of the Motor Vehicle item under PPE account in the FS.

2.15. **We recommended that Management:**

- a. **Direct the Accountant to make the necessary reclassification/adjusting entries, as follows:**



**To reclassify the erroneously recorded PPE items in their proper accounts and related depreciation:**

Other Land Improvements	62,643.47	
Depreciation Expense- Land Improvements	626.44	
Accumulated Depreciation- Other Structures	56,379.12	
Plant-UPIS	96,074,393.02	
Depreciation Expense- Plant- UPIS	2,782,848.64	
Accumulated Depreciation - Water Supply	33,532,058.77	
Other Machinery and Equipment	15,403,321.04	
Depreciation Expense- Other Machinery and	1,041,117.91	
Accumulated Depreciation - Power Supply	2,568,602.47	
Accumulated Depreciation - Other PPE	7,489,838.76	
Other Structure		62,643.47
Depreciation Expense- Other Structure		626.44
Accumulated Depreciation- Land		56,379.12
Water Supply System		94,692,393.02
Depreciation Expense- Water Supply System		2,659,668.64
Accumulated Depreciation- UPIS		34,186,178.77
Power Supply System		5,465,263.76
Depreciation Expense- Power Supply System		497,155.33
Accumulated Depreciation- Other		9,404,321.23
Other PPE		11,320,057.28
Depreciation Expense- Other PPE		66 7,142.58

**To adjust the Semi-Expendable Properties already issued to end-users:**

Accumulated Depreciation- Office Equipment	59,298.96	
Accumulated Depreciation- IT Equipment and Software	75,757.50	
Retained Earnings	83,525.26	
Office Equipment		113,904.00
IT Equipment and Software		84,175.00
Depreciation Expense- Office Equipment		20,502.72

- b. Instruct the Property Officer to report the physical count of Semi-Expendable properties in the RPCSP and to properly fill out the RPCPPE; and**
- c. Direct the Property Officer and Accountant to reconcile their records regularly.**

2.16. Management agreed to make the necessary reclassification/adjusting entries, and have also directed the Property Supply Officer to prepare RPCSP of the semi-expendable properties and to correct the RPCPPE of the Motor Vehicles

account. Further, the Property Supply Officer and Accountant agreed to reconcile their records to support the validity and correctness of PPE account.

## **B. COMPLIANCE AUDIT**

### ***Inventory accounts not supported with SLs***

#### **3. Inventory accounts amounting to ₱3,694,231.95 were not supported with SLs as required under Sections 111 and 114 of PD No. 1445, thus, existence and correct valuation of Inventory accounts could not be ascertained.**

##### **3.1. Section 111 of PD No. 1445 states that:**

Section 111. Keeping of accounts.

- (1) The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.
- (2) The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.

##### **3.2. While Section 114 provides that subsidiary records shall be kept where necessary.**

##### **3.3. Review of accounting records disclosed that the total inventories amounting to ₱3,694,231.95 were not supported with SLs. Details of the inventory accounts are shown below:**

<b>Account</b>	<b>Amount (₱)</b>
<b>Inventory Held for Sale</b>	
Merchandise Inventory	1,951,169.63
<b>Inventory Held for Consumption</b>	
Office Supplies Inventory	88,631.73
Accountable Forms Inventory	480,389.57
Fuel, Oil and Lubricants Inventory	21,888.97
Chemical and Filtering Supplies Inventory	140,000.00
Construction Materials Inventory	1,012,152.05
<b>Total</b>	<b>3,694,231.95</b>

##### **3.4. Verification of Inventory accounts revealed that the Inventory Committee conducted a physical count of MAWAD's inventories and prepared the corresponding Report on the Physical Count of Inventories (RPCI). The**

balances appearing in the said report were reconciled with the Stock Cards maintained by the Property and Supply Officer, however, no Supplies Ledger Cards were maintained by the Accounting Unit.

- 3.5. The Accountant informed the Team that they only maintained the General Ledger and the records of details of Inventories are maintained by the Property and Supply Officer.
- 3.6. Sound internal control dictates that for checks and balances, the Property and Supply Officer/ Unit shall maintain stock cards for inventories in their custody to account for the receipt and disposition of the same. The balance of the stock card shall be reconciled with the Supply Ledger Card maintained by the Accounting Division/ Unit.
- 3.7. An inventory reconciliation is needed to warrant that the actual and recorded inventory costs are the same at the end of the year, so that there will be no issues when the inventory is audited. While performing timely and complete inventory count is an essential procedure of inventory reconciliation, the maintenance of SLs of inventory accounts is equally important.
- 3.8. **We recommended that the Management direct the Accountant to prepare and regularly update the SLs of the inventory accounts for audit, control, and monitoring purposes.**
- 3.9. The Accountant was amenable with the recommendation to create, control, and monitor Supplies Ledger Card to support the validity and correctness of the Inventory account.

***Untitled lots supposedly owned by MAWAD***

- 4. The ownership of 11 parcels of land supposedly owned by MAWAD was not legally established, as they were not duly supported with the requisite documents of ownership as per Section 39(2) of PD No. 1445. Additionally, the cost of investments therein was not secured and is at risk of loss from possible third-party claims.**

- 4.1. Section 39 (2) of the PD No. 1445 states that:

In the case of deeds to property purchased by any government agency, the Commission shall require a certificate of title entered in favor of the government or other evidence satisfactory to it that the title is in the government.

- 4.2. The evidences to prove ownership over a parcel of land are the TCT, Original Certificate of Title (OCT), Certificate of Land Ownership/Award (CLOA) and Emancipation Patent (EP) duly issued by the Land Registration Authority (LRA), formerly Registry of Deeds.

- 4.3. A Certificate of Title is the evidence of the right of the owner or the extent by which he/she can control and as a rule, assert the right to exclusive possession and enjoyment of the property.
- 4.4. On the other hand, Tax Declarations and tax receipts as proof of ownership cannot prevail over a Certificate of Title since the said documents do not conclusively prove title to the land, but only suggest strong indication that the taxpayer concerned has made a claim either to the title or to the possession of the property for which taxes have been paid.
- 4.5. Review of records disclosed that MAWAD has 5,942 square meters of land with total cost of ₱5,272,735.00. Out of the 19 parcels of land, eight were duly supported with TCT in favor of MAWAD, while 10 lots were only evidenced by Tax Declaration of Real Property. Also, there is one parcel of land located at Barangay Bari, Mangaldan, Pangasinan with area of 74 square meters which is not yet titled nor supported with Tax Declaration of Real Property. Details of which are as follows:

Lot No.	Area (m2)	Location (Barangay)	Cost per FS (₱)	TCT/Tax Declaration No.
Supported with TCT				
1	60	Banaoang	300.00	319425
2	106	Amansabina	5,315.00	026-2017001084
3	148	Guiguilonen	200,000.00	270189
4	607	Bari	254,940.00	317720
5	110	Osiem	33,000.00	026-2020001103
6	778	Tebag	700,200.00	026-2019006704
7	200	Banaoang	140,000.00	026-2022004686
8	325	Guiguilonen	227,500.00	026-2023008028
Supported with Tax Declaration				
9	120	Banaoang	9,000.00	005-00902
10	576	Poblacion	357,120.00	001-00706
11	36	Guilig	18,000.00	27963
12	42	Pogo	3,360.00	36715
13	885	Salay	800,000.00	028-41863
14	30 0	Macayug	30,000.00	020-46464
15	565	Amansabina	847,500.00	003-52644
16	300	Talogtog	450,000.00	029-62297
17	210	Anolid	136,500.00	004-53010
18	500	Maasin	1,050,000.00	25-0019-63395
Without TCT or Tax Declaration				
19	74	Bari	10,000.00	Not applicable
<b>Total</b>	<b>5,942</b>		<b>5,272,735.00</b>	

- 4.6. Although the 10 properties had been declared for tax purposes under the name of MAWAD as evidenced by Tax Declarations, the risk of third-party claims still

exists and could lead to underinvestment, as the returns from any improvements and investments thereon could be seized by third parties. Likewise, the lack of land title as certificate of ownership duly registered with the LRA would cast doubt on MAWAD's absolute ownership of the land.

- 4.7. The Management informed the Audit Team that they are currently in the process of obtaining the land titles with the LRA.
- 4.8. **We recommended that Management follow through the process of acquiring Certificates of Title of the lots to establish the validity and the legitimacy of MAWAD's ownership. Likewise, this will safeguard its investments on the properties.**
- 4.9. Management commented that one parcel of land which is not yet titled nor supported with Tax Declaration of Real Property was supported by Deed of Absolute Sale. Meanwhile, three out of the 11 parcels of land were actually supported with TCT in the name of the previous owners with annotation of rights in favor of MAWAD, for which may be considered as proof of establishment of validity and legitimacy of ownership of lots.

***Load allowance lacks legal basis***

5. **MAWAD paid monthly load allowance ranging from ₱300.00 to ₱4,500.00 to selected employees, despite the absence of legal basis as to the necessity of the grant, which is not in accordance with Section 2 of PD No. 1445, thus, the efficient, economical, and effective use of water district funds was not ensured.**

- 5.1. Section 2 of PD No. 1445 declares that:

It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

- 5.2. Post-audit of documents pertaining to the communication expenses of MAWAD showed that selected employees were granted average monthly load allowance ranging from ₱300.00 to ₱4,500.00. Inquiry with the Management disclosed that it was authorized by virtue of Board Resolution No. 33, series of 2017. Pertinent details are quoted as follows:

...General Manager- ₱3,500; Division Manager- ₱2,500.00; and GM Secretary- ₱2,000.00.

5.3. However, upon post-audit of disbursements, the Audit Team noted that the allowed amount of load allowance per individual was not strictly followed and additional personnel were granted the same even without authorization.

5.4. Summary of expenditures for those with authority to receive load allowance is shown below:

Position/ Designation	Amount of Load Allowance (₱)		Remarks
	Authorized per month	Monthly Average of Actual Claims	
GM	3,500.00	4,598.00	The amount of ₱3,000.00 is paid through check per month while the excess were charged from the Petty Cash Fund thus, an excess of ₱1,098.00
Department Manager	2,500.00	2,000.00	The amount of allowance was underutilized.
Utilities/Customer Service Officer	2,500.00	1,979.70	
Cashier	2,500.00	1,995.00	
Executive Assistant	2,000.00	1,500.00	

5.5. As can be gleaned above, the authorized load allowance for the GM appears insufficient, while the load allowances for the remaining employees were not fully maximized.

5.6. Moreover, the Team noted that six personnel were also allowed to receive load allowance despite the absence of authority for them to receive the same. Details are as follows:

No.	Position/ Designation	Amount of Load Allowance Granted (₱)
1	Water/Sewerage Maintenance Head	500.00
2	Senior Plant Mechanic	500.00
3	Utilities/Customer Service Assistant	300.00
4	Utilities/Customer Service Assistant	300.00
5	Property/Supply Officer	300.00
6	Senior Accounting Processor	300.00
<b>Total</b>		<b>2,200.00</b>

- 5.7. Though we acknowledged the necessity of these expenditures so that the respective duties of the employees will not be hampered, and communication being vital in the discharge of their duties and responsibilities, there should be a reasonable basis/limit to ensure that these allowances are not abused by being utilized for personal use.
- 5.8. **We recommended that Management submit legal basis to support the grant of load allowance for further evaluation of the Audit Team.**
- 5.9. Management commented that though the exact rates stated in the Board Resolution were not strictly followed and additional employees were granted load allowances, MAWAD maintained to spend within the total appropriated amount of ₱13,000.00. It was also stressed that the purpose of granting load allowance to employees not listed in the Board Resolution is to recognize the necessity for the efficient discharge of their respective duties. Nevertheless, MAWAD committed to provide a legal basis, and as of this writing, Board Resolution No. 2, series of 2024, dated January 12, 2024, was forwarded to the Audit Team to support the manner of granting load allowance.

***Incomplete documentation of various expenses***

**6. Payments totaling ₱9,408,544.84 for MAWAD's various expenses were not supported with sufficient documentary requirements, which do not comply with Sections 2 and 4 of PD No. 1445, and COA Circular No. 2012-001, thus the validity and legality of the expenditures could not be ascertained.**

6.1 Section of 2 the PD No. 1445 states that:

It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguard against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

6.2 Section 4 (5) of PD No. 1445 also expressly states that claims against government funds shall be supported with complete documentation.

6.3 Moreover, COA Circular No. 2012-001 dated June 14, 2012, was issued to prescribe the revised guidelines and documentary requirements for common government transactions. It provides that one of the general requirements for all types of disbursements is sufficient and relevant documents to establish the validity of claims.

- 6.4 Audit disclosed that for the period January 1 to December 31, 2023, various expenses of the MAWAD totaling ₱9,408,544.84 were not supported with complete documentation. A summary of expenses is shown below:

Particulars	No. of transactions	Total Amount (₱)	Lacking documents
Cash advance for employees' allowance and salary for the period	12	4,878,872.90	<ul style="list-style-type: none"> <li>• Certification that the official/ employee did not use government vehicle and is not assigned any government vehicle for Transportation Allowance</li> </ul>
Goods	16	4,452,888.94	<ul style="list-style-type: none"> <li>• Mayor's permit</li> <li>• PhilGEPS Registration Number</li> <li>• Purchase Request</li> <li>• Original Sales Invoice</li> <li>• Original Delivery Receipt</li> </ul>
Office supplies	3	76,783.00	Certificate of Non-Availability from PS-DBM
<b>Total</b>	<b>31</b>	<b>9,408,544.84</b>	

- 6.5 The said practice is indicative of the MAWAD's lack of internal control, as the Accountant allowed payments of expenses without the complete documentary requirements to support the validity and legality of the claims.
- 6.6 The above claims should not have been processed due to incomplete documentation, thus casting doubt on the validity of the transactions.
- 6.7 **We recommended that Management instruct the Accountant to strictly adhere to the provisions of Sections 2 and 4 of PD No. 1445, and COA Circular No. 2012-001 dated June 14, 2012, by ensuring that documents are complete and proper before processing claims against MAWAD's funds.**
- 6.8 Management was amenable to complying with the recommendation to attach certification stating that the official/ employee did not use a government vehicle and was not assigned any government vehicle to support the grant of Transportation Allowance. They also committed to complying with the recommendation to ensure complete and proper documents before processing claims.

***Non-posting of an invitation to foreign manufacturers for purchase under Direct Contracting mode of procurement***

7. **The Bids and Awards Committee (BAC) did not post on the MAWAD's website and in the Philippine Government Electronic Procurement System (PhilGEPS), an invitation to foreign manufacturers to submit a manifestation of intention to participate in the procurement of goods, as required under Item 6.1 of**



**Appendix 9 of 2016 Revised Implementing Rules and Regulations (IRR) of RA No. 9184, thus defeated the purpose of transparency and full compliance with the procurement law.**

- 7.1 RA No. 9184 adopts as a general principle the preference for Filipino nationals in the award of Government procurement contracts because there is a need to promote economic exchange and expansion of trade and exports with other countries, and to prevent situations that defeat competition or restrain trade, Appendix 9 of 2016 Revised IRR provided the guidelines in the determination of eligibility of foreign suppliers, contractors, and consultants to participate in government procurement projects. Section 6.1 of Appendix 9 expressly provides the following:

In cases where the procuring entity intends to procure goods from an exclusive local manufacturer, supplier, distributor, or dealer through direct contracting under Section 50 (c) of the IRR,<sup>79</sup> when said method is recommended by the BAC and approved by the Head of the Procuring Entity, and reflected in the approved Annual Procurement Plan, it shall, before commencing any negotiations with a local supplier, post through the website of the procuring entity, if any, and in the Philippine Government Electronic Procurement System (PhilGEPS), an invitation to foreign manufacturers to submit a manifestation of its intention to participate. Should any foreign manufacturer submit such manifestation within the period prescribed in the invitation, the procuring entity shall commence the conduct of public bidding. If no foreign manufacturer submits such manifestation within the said period, the procuring entity may proceed with the intended procurement through direct contracting with the said exclusive local manufacturer, supplier, distributor, or dealer.

- 7.2 Audit of disbursements revealed that the following transactions with Amecos Intellectual Properties Incorporated procured through Direct Contracting were not supported with the above-required posting:

<b>Disbursement Vouchers (DV)</b>		<b>Particulars</b>	<b>Gross Amount (₱)</b>
<b>No.</b>	<b>Date</b>		
2023-04-195	04/03/2023	First and partial payment of MAWADGOODS#1, S. 2023, Supply and Delivery of 1,000 pcs. Magnetic Shield Box ½" for 300 pcs partial delivery this date, per PO No. 23-03-024, DR No. 1177 and SI No. 1201.	82,000.00
2023-09-512	09/07/2023	Second and partial payment of MAWADGOODS#1, S. 2023 Supply and Delivery of 1,000 pcs. Magnetic Shield Box	137,500.00

Disbursement Vouchers (DV)		Particulars	Gross Amount (₱)
No.	Date		
		1/2" for 500 pcs partial delivery this date (800pcs delivered to date), per PO No. 23-03-024, DR No. 1215 and SI No. 1190.	
<b>Total</b>			<b>219,500.00</b>

7.3 The BAC Chairperson informed the Team that it was only now that they were made aware of that invitation to foreign manufacturers to submit a manifestation of intention to participate in cases of direct contracting. The absence of that posting resulted in the prohibition of qualified foreign suppliers, contractors, and consultants to participate in government procurement projects.

7.4 **We recommended that in cases of Direct Contracting as the mode of procurement for goods, the BAC shall post on the website of MAWAD and PhilGEPS an invitation to foreign manufacturers to submit a manifestation of intention to participate, in adherence to Section 6.1 of Appendix 9 of 2016 Revised IRR of RA No. 9184.**

7.4 Management commented that the award of contract was given to a local supplier which was owned and managed by a recognized Filipino Inventor, who is the exclusive distributor and supplier of the product. Preference was given to local suppliers to support materials/ supplies which are locally made and manufactured in the Philippines. MAWAD also commented that as per checking in the PhilGEPS website, Direct Contracting was no longer found in the dropdown menu of Procurement mode upon posting, thus, commented that MAWAD will post its future Direct Contracting procurements in three conspicuous places, in lieu of posting in PhilGEPS.

#### Auditor's Rejoinder:

7.5 While we acknowledge the intention of MAWAD to support locally made materials, the Audit Team would like to emphasize the need to support competitive bidding and to promote economic exchange and expansion of trade and exports with other countries. Relative thereto, we reiterated our stand that as a prerequisite before adopting Direct Contracting as mode of procurement, BAC should post on the website of MAWAD and in PhilGEPS, an invitation to foreign manufacturers to submit a manifestation of intention to participate in the procurement of goods. Further, absence of Direct Contracting in the dropdown menu of Procurement mode in PhilGEPS does not justify the practice of adopting the Direct Contracting as mode of procurement even without the required posting of invitation to foreign manufacturers.

***Non-posting of the Requests for Quotation (RFQ), Notice of Award (NOA) and Purchase Order (PO)***

8. **The prescribed postings of the RFQ, NOA, and PO for various transactions totaling ₱4,854,430.24, which were acquired through an alternative method of procurement, were not properly observed. This non-compliance contravenes Sections 54.2 and 54.3 of the 2016 Revised IRR of RA No. 9184, undermining the principles of transparency and full compliance with the procurement law.**

- 8.1. Sections 54.2 and 54.3 of the 2016 Revised IRR of RA No. 9184 provide the following rules on the required procurement postings:

Section 54.2. For alternative methods of procurement, the Procuring Entity may dispense with the advertisement in the newspaper and posting requirement as prescribed in Section 21.2.1 of this IRR.

For the following modalities, however, the BAC, through its Secretariat, shall post the invitation or request for submission of price quotations/proposals in the PhilGEPS website, the website of the Procuring Entity concerned, if available, and at any conspicuous place reserved for this purpose in the premises of the Procuring Entity for a period of at least three calendar days:

1. Section 49 Limited Source Bidding;
2. Section 52.1(b) Shopping for ordinary office supplies and equipment not available in DBM-PS (for ABC above Fifty Thousand Pesos (₱50,000.00));
3. Section 53.1 Two Failed Biddings;
4. Section 53.9 Small Value Procurement (For ABC above Fifty Thousand Pesos (₱50,000.00); and
5. Section 53.11 NGO Participation.

Section 54.3. In all instances of alternative methods of procurement, the BAC, through the Secretariat, shall post, for information purposes, the notice of award, contract or purchase order, including notice to proceed if necessary, in the PhilGEPS website, the website of the Procuring Entity concerned, if available, and at any conspicuous place reserved for this purpose in the premises of the Procuring Entity, except for contracts with ABC of Fifty Thousand Pesos (₱50,000.00) and below.

8.2. Review of MAWAD's transactions for CY 2023 with contract amount of ₱416,860.00 disclosed that required postings of the RFQ, NOA, and PO were not properly observed, as shown below.

8.3. A summary of expenses is shown below and details of the relevant transactions are attached as Annex A of the AOM issued to the Management.

Particulars	No. of transactions	Total Amount (₱)	Procurement Document	PhilGEPS	Website MAWAD	Any conspicuous place
Representation Expenses	3	249,000.00	RFQ	X	X	X
			NOA	X	X	X
			PO	X	X	X
Goods	15	4,605,430.24	RFQ	✓	X	✓
			NOA	✓ (11 transactions)	X	X
			PO	✓ (11 transactions)	X	X
<b>Total</b>	<b>31</b>	<b>4,854,430.24</b>				

8.4. The lack of procurement-related postings defeated the purpose of transparency and full compliance with the procurement law.

8.5. We recommended and Management, particularly the BAC, agreed to comply with the posting of necessary documents in the PhilGEPS website, Agency website, and at any conspicuous places for future procurement activities, as required by certain provisions of the 2016 Revised IRR of RA No. 9184, to promote transparency and full compliance with the procurement law.

*Absence of posting of appropriate project signboard and/ or public notice on the implementation of an infrastructure project*

9. Notification of MAWAD of its posting of appropriate project signboard and/or public notice on the implementation of Construction of Pumping Station with Backfilling and Perimeter Fence in Barangay Talogtog, Mangaldan, Pangasinan, with contract cost of ₱1,999,902.51 was not submitted to the Audit Team within ten days after the award of the infrastructure project or before the start of the program/activity which is not in accordance with Section 3.1 of COA Circular No. 2013-004 dated January 30, 2013.

Moreover, picture of actual signboard installed at the project site was not attached to the DV which is not in conformity with Section 4(6) of PD No. 1445; hence, defeating the principle of transparency, accountability, good governance and the right of the people to information on matters of public concern.

9.1. Consistent with the policies of the State under the 1987 Constitution to promote full disclosure of all transactions involving public interest and to recognize the right of the people to information on matters of public concern, COA Circular No. 2013-004 dated January 30, 2013, as amended, was issued to provide guidelines on the information and publicity on programs/projects/activities (PPAs) of government agencies.

9.2. Section 2.2 of said COA Circular states that:

2.2 Notification to the public and other forms of announcement and/or publicity for or otherwise relating to the PPA shall be made at the least possible cost, taking into account that the nature of and purposes of such notification, announcement and/or publicity, is to inform the public of the essential features/elements of the PPA. Accordingly,

2.2.1 All government agencies, or the implementing unit, office or division as the case may be, shall notify the public of their PPA through the posting of relevant information, detailed in Item 2.1 above on signboards, blackboards, whiteboards, posters, tarpaulins, streamers, electronic boards or similar materials (Collectively, “Signboards”) not exceeding 3 feet by 2 feet, in conspicuous places within the agency premises, and in the venue where the PPA is located or carried out. This requirement applies to all government PPAs, regardless of amount or source of funds.

2.2.2 ...

2.2.3 For infrastructure projects, a tarpaulin signboard must be suitably framed for outdoor display at the project location, and shall be posted as soon as the award has been made. The design and format of the tarpaulin, as shown in Annex “A”, shall have the following specifications:

Tarpaulin, white, 8 ft x 8ft  
Resolution: 70 dpi  
Font: Helvetica  
Font Size: Main Information – 3”  
Sub-Information – 1”  
Font Color: Black

3.1 The Head of Agency shall inform its SA and ATL within ten (10) days after the award of the infrastructure project or before the start of the program/activity that the appropriate project signboards and/ or public notices are already posted, and the SA and ATL shall validate the same.

- 9.3. MAWAD implemented the Construction of Pumping Station with Backfilling and Perimeter Fence in Barangay Talogtog, Mangaldan, Pangasinan, with contract cost of ₱1,999,902.51. However, the Audit Team was not notified by the Management of the posting of the appropriate signboards within 10 days after the award of the infrastructure project or before the start of the program/activity as required in the aforementioned provision of COA Circular No. 2013-004. Since MAWAD was not able to notify of its posting, the Audit Team was precluded from the timely validation and verification of its adherence to the provisions expressed in the Circular.
- 9.4. In addition, picture of the actual signboard installed at the project site as evidence was not attached to the DV which is not in conformity with Section 4(6) of PD No. 1445 which states that “Claims against government funds shall be supported with complete documentation.”
- 9.5. **We recommended and Management agreed to furnish the Audit Team with a copy of notice of the posting of the appropriate signboards of its projects within the prescribed period for validation and attach pictures of the actual signboards to the DV as part of the supporting papers for the payment of the infrastructure project.**

***Incomplete documentation of infrastructure project implementation***

10. **Deficiencies in the documentary requirements submitted were noted in the audit of the Construction of Pumping Station with Backfilling and Perimeter Fence in Barangay Talogtog, Mangaldan, Pangasinan, with contract cost of ₱1,997,902.51. These deficiencies contravene the provisions of the 2016 Revised IRR of RA No. 9184, thus raising doubts on the validity and propriety of the recorded transactions.**

**Likewise, payment thereof was not duly supported with complete documentation, which is not in conformity with Section 4(6) of PD No. 1445 and COA Circular No. 2012-001 dated June 14, 2012; thus, the validity and propriety of the claim could not be established.**

- 10.1. Auditorial contract review of the project Construction of Pumping Station with Backfilling and Perimeter Fence in Barangay Talogtog, Mangaldan, Pangasinan revealed that documentary requirements listed below were not submitted:
  - Approved Budget for Contract (ABC) in standard form (Section 3.g. of Annex "A" of 2016 Revised IRR and DPWH D. O. No. 197 Series of 2016 dated Oct. 7, 2016);
  - Records of BAC on the issuance of Bid Documents with corresponding official receipt;

- Technical Working Group (TWG) Report on the Detailed Bid Evaluation for determination of the bidder with the LCB, as reviewed by the BAC;
- Resolution of the BAC adopting and confirming the TWG Detailed Bid Evaluation Report and declaring the lowest calculated bid (LCB);
- Invitation of three observers in writing, at least 5 calendar days before Post-qualification activity;
- Statement of Single Largest Completed Contract (SLCC) was submitted as part of Technical Documents (1<sup>st</sup> Envelope) of the Bidding Documents but Certificate of Final Acceptance was not attached as a supporting document;
- Resolution of the BAC adopting and confirming the TWG Post Qualification Evaluation Report and declaring the LCRB; and
- Print out on posting of Contract, NOA, and Notice to Proceed in a conspicuous place certified by the Head of BAC Secretariat.

10.2 On the other hand, Section 4(6) of PD No. 1445 expressly states that “Claims against government funds shall be supported with complete documentation” and COA Circular No. 2012-001 dated June 14, 2012, prescribes the revised guidelines and documentary requirements for common government transactions.

10.3 Post-audit of disbursements for the project revealed that the DVs were not properly supported with complete documentary requirements, which is not in accordance with Section 4(6) of PD No. 1445 and COA Circular No. 2012-001 dated June 14, 2012; thus, affecting the validity and propriety of the recorded transactions. Details of payment are provided below:

DV No.	Check No.	Date of Check	Particulars	Amount
DV-2023-07-391	82538186	07/12/2023	Partial Payment	439,299.46
DV-2023-08-468	82538265	08/15/2023	Partial Payment	788,683.02
DV-2023-10-582	82538380	10/04/2023	Full Payment	769,920.03
<b>Total</b>				<b>1,997,902.51</b>

10.4 The documentary requirements that were not submitted are the following:

- a. Statement of Time Elapsed; and
- b. Contractor's Affidavit on payment of laborers and materials.

10.5 Compliance with the foregoing provisions could facilitate the verification of documents and technical review of the project as well as the determination of the validity of the transactions.

10.6 **We recommended and Management agreed to instruct the members of the BAC to strictly comply with the aforementioned provisions of the 2016 Revised IRR of RA No. 9184 and ensure that the necessary bidding documents in**

**every phase of the bidding process are complete before recommending to the Head of Procuring Entity for approval.**

### **C. OTHER AREAS**

#### **GENDER AND DEVELOPMENT (GAD)**

*GAD budget was below the minimum of five percent of the Corporate Operating Budget (COB)*

**11. The MAWAD's GAD budget for CY 2023 was below the minimum of five percent of the COB, inconsistent with the requirement under Section 35 of the General Provisions of the General Appropriations Act (GAA) for Fiscal Year (FY) 2023 and Section 1.2.2.1.3 of Philippine Commission on Women (PCW) MC No. 2022-03 dated August 31, 2022, hence, full compliance toward the objectives of GAD program was not attained.**

**Moreover, only ₱1,892,518.41 or 51.85% of the total GAD budget was utilized in the implementation of its gender-related activities, thus, the efficiency and effectiveness in addressing gender issues towards the realization of the objectives of the country's commitments have not been fully achieved.**

**11.1. Section 35 of the General Provisions of the GAA for FY 2023 provided that:**

Programs and Projects Related to Gender and Development. All agencies of the government shall formulate a Gender and Development (GAD) Plan designed to address gender issues within their concerned sectors or mandate and implement the applicable provisions under Republic Act No. 9710 or the Magna Carta of Women, Convention on the Elimination of All Forms of Discrimination Against Women, the Beijing Platform for Action, the Philippine Plan for Gender-Responsive Development (1195-2025) and the Philippine Development (2017-2022).

The GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their budgets. For this purpose, activities currently being undertaken by agencies which relate to GAD or those that contribute to poverty alleviation, economic empowerment especially of marginalized women, protection, promotion, and fulfillment of women's human rights, and practice of gender-responsive governance are considered sufficient compliance with said requirement. Utilization of GAD budget shall be evaluated based on the GAD performance indicators identified by said agencies.



The preparations and submission of the annual GAD Plan and annual GAD Accomplishment Report shall be subject to the guidelines issued by the agencies concerned.

11.2. Verification of records disclosed that the allocation for GAD expenditures amounting to ₱3,650,000.00 is only 4.48% of the approved COB for CY 2023 totaling ₱81,425,621.68, which is below the minimum requirement of five percent.

11.3. Section 1.2.2.1.3 of PCW MC No. 2022-03 dated August 31, 2022 provides that:

For GOCCs, the GAD budget shall be drawn from their COB. However, budget included in the COB that do not entail actual cash disbursement, but only serve as entries in the accounting books, may be excluded in the base amount used in computing the minimum 5% GAD budget, provided that the concerned GOCC shall submit documentary evidence to support the budget exclusion (e.g. interest expense, debt servicing, etc.) to PCW.

11.4. As stated in the PCW MC, some items may be excluded provided that documentary evidence to support the budget exclusion is submitted. In the absence of such documentary evidence, the base amount shall be the total COB.

11.5. Furthermore, review of the GAD Plan and Budget (GPB) and Accomplishment Report for CY 2023 disclosed that of the total GAD Budget of ₱3,650,000.00, only ₱1,892,518.41 was utilized as per submitted Annual GAD Accomplishment Report for CY 2023.

11.6. MAWAD implemented only two out of five of its planned GAD activities, leaving an unutilized amount of ₱1,757,481.59. Hence, the efficiency and effectiveness in addressing gender issues towards the realization of the objectives of the country's commitments have not been fully achieved.

11.7. This has been a reiteration of a prior year's audit observation for which the recommendation has not been implemented.

11.8. **We recommended and Management agreed to direct the GAD Focal Point System:**

- a. Revisit the GPB and comply with a minimum allocation of five percent of the COB; and**
- b. Implement GAD Plan and Budget consistent with pertinent rules and regulations.**

#### **D. DISASTER RISK AND REDUCTION MANAGEMENT (DRRM)**

- 12. In compliance with the General Provisions of the GAA, MAWAD had prepared and developed its DRRM Plan.**

#### **E. COMPLIANCE WITH TAX LAWS**

##### ***Incorrect tax rate applied on BOD's Per Diem***

- 13. A tax rate of five percent instead of 10% was applied in the computation of taxes on the payment of the BOD's Per Diem, resulting in a deficiency amounting to ₱25,920.00 on taxes withheld and remitted by MAWAD. This is not in accordance with Section II of the BIR RMO No. 23-2014 dated June 20, 2014, and BIR RR No. 11-2018 dated January 31, 2018, thus may result in imposition of penalties.**

- 13.1. Under the Expanded Withholding Tax (EWT) system, the person or the entity that pays the income to another is given the responsibility of withholding tax and remitting the same to the government. The system is an effective and convenient method to facilitate the collection and payment of taxes since every withholding agent is obliged to collect and remit taxes on behalf of and for the government.

- 13.2. Section II of BIR RMO No. 23-2014 dated June 20, 2014, provides that:

All government offices including government-owned or controlled corporations (such as but not limited to the Bangko Sentral ng Pilipinas, Metropolitan Waterworks and Sewerage System, Philippine Deposit Insurance Corporation, Government Service Insurance System, Social Security System), as well as provincial, city and municipal governments are constituted as withholding agents for purposes of the creditable tax required to be withheld on the following...

- 13.3. Likewise, Section 2 of BIR RR No.11-2018 amending Section 2.57.2 of RR 2-98 prescribes that the withholding tax rate on fees of directors who are not employees of the company paying such fees, whose duties are confined to attendance at and participation in the Per Diem of the board of directors, is five percent if gross income of the director for the current year does not exceed ₱3,000,000.00 and 10% if gross income is more than ₱3,000,000.00.
- 13.4. Moreover, individuals who earn ₱250,000.00 and below from a lone income payor are exempted from withholding upon compliance with the following requirements:

- a) The individual has executed a payee's sworn declaration of gross receipts in accordance with the format per attached Annex "B-2", and
- b) The sworn declaration has been submitted to the lone income payor/withholding agent on or before January 15 of each year or before the initial income payment, whichever is applicable.

13.5. The same RR also stipulates the following requirement, quoted as follows:

Individual payees whose gross receipts/sales in a taxable year shall not exceed ₱3M, are required to submit a sworn declaration of his/her gross receipts/sales (Annex "B1"), together with a copy of Certificate of Registration (COR), to all the income payor/withholding agents not later than January 15 of each year or at least prior to the initial payment of the professional fees/commissions/ talent fees, etc in order for them to be subject to five percent (5%). The ten percent (10%) withholding tax rate shall be applied in the following cases: (1) the payee failed to provide the income payor/withholding agent of such declaration; or (2) the income payment exceeds ₱3M, despite receiving the sworn declaration from the income payee.

- 13.6. Audit of disbursements showed that the tax rate of Per Diems of four Directors of MAWAD is five percent. However, inquiry with Management disclosed that for the taxable year 2023, the four Directors of MAWAD did not submit Annex B1 or the sworn declaration that their gross receipts/sales in a taxable year shall not exceed ₱3,000,000.00, a prerequisite for them to be qualified for the five percent tax rate.
- 13.7. For CY 2023, MAWAD paid Per Diem of the four Directors in the total amount of ₱518,400. Of this amount, ₱25,920.00 or equivalent to five percent was withheld in payment of taxes.
- 13.8. In the absence of the said requirement, a 10% tax rate should have been imposed, resulting in a deficiency of ₱25,920.00 on the amount withheld and remitted by MAWAD. Details of which are shown as follows:

Month	Per Diem	Tax Withheld	Should be	Deficiency
January	43,200.00	2,160.00	4,320.00	2,160.00
February	43,200.00	2,160.00	4,320.00	2,160.00
March	43,200.00	2,160.00	4,320.00	2,160.00
April	43,200.00	2,160.00	4,320.00	2,160.00
May	43,200.00	2,160.00	4,320.00	2,160.00
June	43,200.00	2,160.00	4,320.00	2,160.00
July	43,200.00	2,160.00	4,320.00	2,160.00
August	43,200.00	2,160.00	4,320.00	2,160.00
September	43,200.00	2,160.00	4,320.00	2,160.00

Month	Per Diem	Tax Withheld	Should be	Deficiency
October	43,200.00	2,160.00	4,320.00	2,160.00
November	43,200.00	2,160.00	4,320.00	2,160.00
December	43,200.00	2,160.00	4,320.00	2,160.00
<b>Total</b>	<b>518,400.00</b>	<b>25,920.00</b>	<b>51,840.00</b>	<b>25,920.00</b>

13.9. Non-compliance with tax laws may result in imposition of penalties against MAWAD which can significantly increase the amount owed to the government.

13.10. **We recommended and Management agreed to direct the Accountant to withhold the correct amount of taxes on payments of BOD Per Diem in compliance with the provisions of aforecited BIR Regulations to avoid possible imposition of penalties.**

#### **F. REMITTANCES TO GSIS, PHILHEALTH AND PAG-IBIG**

14. Presented below is the schedule of withheld and remitted employees' premium contributions to GSIS, PhilHealth and Pag-IBIG for CY 2023.

Month	GSIS	PHIC	PAG-IBIG
January	433,907.67	46,874.80	38,814.87
February	409,928.03	46,874.80	39,146.33
March	408,587.27	45,625.60	38,381.73
April	398,228.83	42,918.32	37,900.81
May	396,221.95	42,918.32	39,938.40
June	383,403.94	42,918.32	36,567.40
July	390,919.30	44,478.32	37,647.40
August	370,097.34	43,733.52	37,255.00
September	363,741.02	43,026.00	40,564.43
October	365,077.63	43,026.00	38,633.42
November	382,297.93	43,026.00	38,633.42
December	372,259.30	45,598.12	40,135.02
<b>Total</b>	<b>4,674,670.21</b>	<b>531,018.12</b>	<b>463,618.23</b>

**G. STATUS OF SETTLEMENT AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

15. Summary of audit suspensions, disallowances and charges of MAWAD as of December 31, 2023 is presented as follows:

Particulars	Amount (₱)			
	Beginning Balance (12/31/2022)	CY 2023 Issuances		Ending Balance (12/31/2023)
		NS/ND/NC	NSSDC	
Suspensions	-	1,308,533.57	1,308,533.57	-
Disallowances	6,012,187.37	69,921.00	609,847.00	5,472,261.37
Charges	-	-	-	-
<b>Total</b>	<b>6,012,187.37</b>	<b>1,378,454.57</b>	<b>1,918,380.57</b>	<b>5,472,261.37</b>

**PART III**

**STATUS OF IMPLEMENTATION OF PRIOR  
YEAR'S AUDIT RECOMMENDATIONS**

## STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 12 prior year's audit recommendations, eight were implemented and four were not implemented as detailed below:

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>1. Various accounts in the FS of the MAWAD amounting to ₱3,477,082.89 were not properly classified contrary to PAS No. 1 and COA Circular No. 2020-002 dated January 28, 2020, on the RCA for GC, thus affecting the fair presentation of the FS of MAWAD.</p> <p>Further, the Guaranty Deposits of ₱3,819,800.51 and the schedule on the Customer's Deposits Payable of ₱3,427,007.60, of the Finance and Commercial Divisions, respectively, were not reconciled posting a discrepancy of ₱392,792.91, thereby, the liability account was not fairly presented in the books of MAWAD.</p> <p>We recommended that Management require the OIC-Division Manager of the Finance Division reclassify and prepare the necessary adjusting entries to correct the misclassified accounts in accordance with the RCA</p>	<p>page 24 of CY 2022 AAR</p>	<p>No adjusting entries were made to reclassify the accounts since it involved nominal accounts. However, transactions with the same nature have been recorded</p>	<p>Deemed Implemented</p>

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>for GC.</p> <p>We recommended further that Management require the OIC-Division Managers of the Finance and Commercial Divisions to review and analyze the individual SL of consumers who have deposits and determine the correct and actual liability, particularly from those deposits of inactive consumers who may have caused the discrepancies of records.</p>		<p>correctly in CY 2023.</p>	<p>Not Implemented</p> <p>Schedule of Customer's Guaranty Deposits of Commercial Division and Finance Division as of year-end amounting to ₱3,419,440.25 was not reconciled with Guaranty Deposits of ₱3,449,992.40, as per bank statement, or a discrepancy of ₱30,552.15.</p>
<p>2. Payments of the Representation and Transportation Allowances (RATA) to the concerned Officers and Employees of MAWAD were made on the first working day of the month, thus leaves of absence in excess of the required number of days which are construed as not the actual work performance in a month may not have been pro-rated in the computation of payment contrary to the Department of Budget and Management (DBM) National Budget Circular (NBC) No. 548 dated May 15, 2013.</p> <p>Further, the GM who is regularly using the government vehicle of</p>	<p>2022 AAR Finding No. 2</p>		



Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>MAWAD is being paid the Transportation Allowance (TA) contrary to Section 7.2.1 of the same DBM NBC, thus, resulting in irregular payment of funds.</p> <p>Lastly, the RATA of Officers-in-Charge (OIC) of the Finance and Commercial Divisions were paid on a commutable basis contrary to Section 8.0 of the same DBM NBC above-stated, thereby, payments were not validly supported with documents required under COA Circular No. 2012-001 dated June 14, 2012, and may likewise result to irregular payments of government funds.</p> <p>We recommended Management the following:</p> <p>a. Require the employees designated as OICs to claim their RATA on reimbursable basis with supporting documents.</p> <p>b. Stop the payment of TA of the GM since the government vehicle is being regularly use in all travels. Claim the allowance in a pro-rated computation if ever no government vehicle is</p>		<p>Claims of RATA on reimbursable basis were supported with official receipts as recommended by the Audit Team.</p>	<p>Implemented</p> <p>Deemed Implemented</p> <p>TA of GM is still granted in CY 2023 since no government vehicle was assigned to him and</p>

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
available or when the vehicle is under repair for over three days or more and no replacement is provided.			all vehicles owned by MAWAD were available for use by all employees for official travels.
<p>3. The Personnel Economic Relief Allowance (PERA) and the Extraordinary and Miscellaneous Expenses (EME) of GM were likewise paid on the first working day of the month contrary to Section 5.1 and 5.2 of DBM Budget Circular (BC) No. 2009-3 dated August 18, 2009, COA Circular No. 2006-001 dated January 3, 2006, and Section 2 of PD No. 1445, thus posed inappropriate disposition of government funds.</p> <p>We recommended that Management pay the RATA, PERA and EME in accordance with the guidelines, rules and regulations provided under the DBM and COA issuances and other existing applicable laws, rules and regulations pertaining to allowances and benefits of government employees.</p>	2022 AAR Finding No. 3	Management integrated the payment of RATA, PERA and EME in the 15 <sup>th</sup> day of the month.	Implemented
4. MAWAD hired caretakers under a Contract of Service (COS) Agreement to safeguard the operation of its pumping stations and as pump operators contrary to the guidelines under COA - DBM Joint Circular (JC)	2022 AAR Finding No. 4		

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
<p>No. 2, series of 2020 dated October 20, 2020, since COS is limited to consultants, learning service providers and/or other technical experts to undertake special project or job within a specific period.</p> <p>Further, the cost of services of the caretakers which amounted to ₱428,400.00 was charged against the labor and wages expense of the Maintenance and Other Operating Expenses (MOOE) contrary to the updated rules and regulations on the COS and Job Order Workers of the government, thereby, the hiring of COS was inappropriate resulting in the improper disposition of government funds.</p> <p>We recommended that the GM stop hiring workers under a COS Agreement or Contract/ Agreement who are not consultants, learning service providers, and/or other technical experts to undertake special project or job within a specific period to prevent improper disposition of government funds. The caretakers may be hired under the Job Order Contract, if necessary, following the</p>			<p>Not Implemented</p> <p>JO Contracts were used instead of COS Contracts, however, documentary requirements were not attached to support the wages received, such as Daily Time Record (DTR) and Accomplishment Reports.</p>

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
COA-DBM JC No. 2, s. 2020.			
<p>5. Various expenses charged as Representation Expenses and Travelling Expenses not requiring Official Receipts (OR) were reimbursed or paid using Reimbursement Expense Receipt (RER) contrary to the guidelines under COA Circular Nos. 2017-001 dated June 19, 2017, and 2021-001 dated June 24, 2021, thereby, may result in inappropriate disposition of funds of the government.</p> <p>We recommended that Management instruct the OIC of the Finance Division to review all reimbursements of expenses if validly supported by documents required under COA Circular Nos. 2017-001 dated June 24, 2017, and 2021-001 dated June 24, 2021, to ensure the proper disbursement of government funds.</p> <p>We further recommended that Management to inform all personnel to refrain attaching RERs on the claim of travelling expenses because these expenses are properly covered by guidelines on travel and not the use of RERs.</p>	2022 AAR Finding No. 5	<p>Management adopted the guideline on the use of RER and CENRR in disbursements.</p> <p>Claims for traveling expenses in CY 2023 were already supported with proper documents.</p>	<p>Implemented</p> <p>RERs and CENRRs were duly attached on transactions that they are necessary.</p> <p>Implemented</p>

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
<p>10 Disbursements totaling ₱1,308,533.57 were not supported with complete documentation as required under Section 4.6 of PD No. 1445, COA Circular No. 2012-001 dated June 14, 2012 and other specific guidelines applicable to government expenditures, thus, affecting the validity, regularity and propriety of the disbursements.</p> <p>We recommended that Management direct the Accountant to submit immediately the lacking documentary requirements in accordance with Section 4.6 of PD No. 1445 and COA Circular No. 2012-001 dated June 14, 2012 to establish the validity and propriety of the disbursements.</p> <p>We also recommended that Management direct the Accountant to ensure that claims should be supported with complete documents before payment.</p>	<p>2022 AAR Finding No. 6</p>	<p>The Accountant was directed to submit the lacking documents resulting in the settlement of the issued audit suspension through NSSDC Nos. 2023-91 dated August 1, 2023 and 2023-92 to 93 dated August 23, 2023.</p>	<p>Implemented</p> <p>Not Implemented</p> <p>Reiterated under Observation No. 6 in Part II of this Report.</p>
<p>11 MAWAD allocated a GAD budget of ₱2,800,000.00 or 3.4% of the total agency budget of ₱83,390,976.00 contrary to Section 6.a of the JC No. 2012-01 of the PCW, National Economic and Development authority (NEDA), and the DBM; and, Section 34, second</p>	<p>2022 AAR Finding No. 7</p>		

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
<p>paragraph, of the GAA of 2022 under RA No. 11639. The GAD budget was drawn from the agency's proposed Capital Outlay of ₱18,000,000.00.</p> <p>Further, of the total GAD budget, only ₱1,512,899.11 or 54.03% was utilized, hence, gender related issues were not effectively addressed towards the realization of the objectives of the country's commitments under PCW MC No. 2015-03 dated May 19, 2015.</p> <p>We recommended that Management instruct the GAD focal point person prepare a GPB with an allocation of at least five percent of the total agency budget appropriations as authorized under the annual GAA which shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's MOOE, capital outlay (CO), and personal services (PS).</p> <p>We recommended further that Management implement the GAD activities in accordance with the GPB in compliance with PCW-NEDA-DBM JC No. 2012-01 and PCW MC No.</p>		<p>GAD activities implemented in 2023 were attendance to seminars and the implementation of Expansion of Distribution Lines</p>	<p>Not Implemented</p> <p>Reiterated under Observation No. 11 in Part II of this Report.</p> <p>Implemented</p>

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
2015-03 dated May 19, 2015. Also, provide timelines on the client-prioritized projects to fully address gender issues towards the realization of MAWAD's commitments to contribute to poverty alleviation, economic empowerment especially of marginalized women.		project, attributed as a GAD-related Project.	